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GORBACHEV'S PROGRAM: MOTIVES AND PROSPECTS

I. HIS DILEMMA

By the time Gorbachev became General Secretary, he realized that changing economic, political and social conditions had made the strategy and tactics of the past increasingly anachronistic.

- The Soviet economy was in the midst of a decade long slump in growth: GNP grew by just over two percent per year in 1976-85. The technology gap with the West was growing, and energy and other raw material costs were rising precipitously.
- Soviet leaders were increasingly aware of the rising defense burden and its link to the USSR's inability to provide more rapid gains in consumer welfare and to generate high economic growth. We estimate that during the past 10 years, defense accounted for about 15 percent of Soviet gross national product each year--over twice as much as in the United States.
- Leadership ineptitude and bureaucratic corruption had sapped the vitality of the system and eroded its legitimacy. This contributed to a widespread malaise in Soviet society, reflected in low worker morale, youth alienation, and an increase in materialism, privatism, and ideological cynicism.

-- These domestic problems had important foreign policy implications. Above all, Soviet leaders began to worry about the impact of declining growth and the technology gap on the USSR's future military strength, putting at risk Soviet status as a superpower. Also, poor Soviet economic performance resulted in a more niggardly attitude toward pleas for aid from client states and diminished the appeal of the Soviet economic model to the Third World.

## II. A NEW PERCEPTION

These problems had been in the making for some time, and Soviet leaders from the Brezhnev period forward had acknowledged their existence. Gorbachev's perception differed, however, in the way he defined the nature and urgency of the problems as well as the scope and intensity of the necessary solutions. He believed that:

-- Soviet economic problems were to a large extent of their own making.

-- The system of planning and management was too centralized and clumsy for effective guidance of the increasingly complex and sophisticated economy. He stressed the need for systemic reform--aimed at changing the basic operating procedures of the economy--rather than piecemeal changes grafted onto the old command system.

- The strategy of low investment growth of the recent past and the pattern of investment allocation had been a deterrent to productivity growth.
- The global challenges of the future, in particular the technological revolution, would not yield to brute force. Technological change depended heavily on greater autonomy in decisionmaking and a system of fine-tuned incentives. Above all, it required an emphasis on quality as well as quantity.
- New managerial and moral standards--for both party and government leaders--had to be established and generational change effected.
- The cooperation and support of the masses--from the party elite down to the common working man--were essential to getting the economy moving again and to regain regime legitimacy. Yet the party must remain in ultimate control.
- Reduced tension in international relations, particularly with the West, was essential to provide the breathing space for redistributing resources toward the civilian economy and acquiring the necessary foreign equipment and technology as well as for promoting a positive political climate at home for his reform program.

Unlike his predecessors, Gorbachev also realized that these problems were interrelated, requiring a simultaneous assault, that the hard solutions could no longer be avoided, and that the window of opportunity for attacking many of these issues was relatively small. He conveyed a sense of urgency in getting started but at the same time understood that his program was long-run and would not yield immediate gains. In short, Gorbachev could be called a pragmatic visionary.

### III. HIS STRATEGY

Gorbachev's strategy for change was molded by these new perceptions.

#### Growth and Modernization

Gorbachev is pursuing a "human factors" campaign that aims at quick returns from enforcing greater discipline and instilling more initiative in workers and managers and a modernization program designed to update the country's antiquated industrial base over the longer term. The modernization strategy includes:

- a doubling of retirement rates for fixed capital during the current five-year plan (1986-90), which will replace up to one third of the country's plant and equipment by 1990;
- an increase in the level of investment in the civilian machine-building and metalworking ministries (MBMW) by 80 percent during 1986-90 over the level achieved during 1981-85; and

- a program that establishes government quality control inspectors at the plant level (known as Gospriyemka)--similar to procedures used by the military.

Substantial investment in the defense industry in the late 1970s and early 1980s enabled Gorbachev to argue that a larger share of investment in machinebuilding could now go to the civilian sector without seriously affecting defense. Nevertheless, defense and industrial modernization compete for the same scarce, high-quality resources--raw materials, intermediate products, labor and investment.

#### Cadre Renewal

Gorbachev has made more rapid progress than previous successions in consolidating his power and effecting a large turnover in key positions.

- He has infused the Politburo with new blood and packed the Secretariat with his supporters (six of the 14 Politburo members are now from the Secretariat). The most recent plenum in June promoted three reform-minded party secretaries to the Politburo. This increase in the number of senior secretaries--members of the Secretariat who have Politburo status--will further dilute the power of "Second Secretary" Ligachev, who appears to be acting as a spokesman for more conservative party members.

- He has moved to break up entrenched elites in non-Russian areas, particularly Central Asia, and has taken strong steps to rein in regional areas that had drifted away from Moscow's control during the late Brezhnev era.
- He has purged the ministerial bureaucracy and has brought in new people whom he believes will be more competent and loyal. About two-thirds of the heads of the old economic ministries have been replaced, and nearly all the officials brought in to head the recently created superministries are new.
- He has expanded Andropov's campaign against corruption, raised standards of performance and probity, and begun an attack on many privileges long enjoyed by officials but resented by ordinary citizens.

Improving Morale and Strengthening the Social Fabric

Gorbachev evidently believes that increased personal freedoms and a freer flow and clash of ideas are necessary to revitalize the system and to overcome widespread apathy and alienation, particularly among the intelligentsia.

His policy of glasnost or openness has resulted in more candor and less ideological rigidity in the discussion of Soviet problems,

history, international relations and culture than at any time since the 1920s.

- It serves a variety of purposes: it enables the regime to compete with foreign and other unofficial sources of information, it can be used to pillory officials resistant to Gorbachev's reforms, it highlights social problems, such as alcoholism and drug abuse, that need to be addressed, and it appeals to the intelligentsia who had become alienated from regime goals.
- The regime clearly intends to place limits on how far glasnost will be allowed to proceed, but just where those limits are to be drawn is not yet clear, and for now the boundaries on public debate are continuing to erode.

The movement toward greater "democratization" is an effort to give the one-party state more legitimacy and the population a greater sense of participation.

- Gorbachev has called for multiple candidates and secret ballots in elections of party officials up to the republic level, hinted at procedural changes in the selection of the Central Committee, Secretariat, and Politburo, and scheduled a party conference for next year to revise election procedures.
- He has enacted a new Enterprise Law providing for the election

of plant managers, although their election is subject to "confirmation" by superior agencies.

At the same time Gorbachev is attempting to make the system more equitable and to fight social problems.

- A legal reform is underway that attempts to make the administration of justice more equitable and the use of police power somewhat less arbitrary.
- In an effort to make creative use of the ideas of dissidents and social critics, some of the worst abuses of human rights have been eliminated and the boundaries of permissible dissent widened; Sakharov has been released from exile and allowed to express his views, more than 140 other political prisoners have been freed, emigration of Jews, ethnic Germans and Armenians have increased several-fold this year compared with last year, and a greater tolerance is being shown toward dissident behavior and public protest.
- The campaign to fight alcoholism has resulted in a 40 percent drop in legal alcohol sales, and an assault on drug abuse has begun.

Control over the Military

Gorbachev has moved aggressively to assert party authority over the military, whose short-term interests will necessarily be affected by his effort to revitalize the civilian economic base.

- Since he became party leader, the military has had a less visible public role, exemplified by its reduced representation at major ceremonies.
- He has beefed up the party apparatus responsible for oversight of the military and reasserted the party's role in the formation of military doctrine.
- He promoted Lev Zaykov--a close ally--to senior party secretary for defense industry and tightened his personal control over arms control decisionmaking by appointing Eduard Shevardnadze as Foreign Minister and installing a new arms control group in the party's International Department.
- He used the Cessna incident in June to put his own man in charge of the Ministry of Defense, and there are indications that a broad housecleaning will take place in the months ahead.
- He has propounded a line stressing "sufficiency" in defense spending and argued that security cannot be attained by "military-technical" means but only through political solutions.

Despite some concern among the military over Gorbachev's policies, most signs point to broadbased military support for the goals of the modernization program, which promises to put Moscow in a better position to maintain its longterm military competitiveness with the United States.

New Initiatives in Foreign Policy

Gorbachev is asserting his authority in the foreign policy area in order to make it more effective and better able to serve domestic needs. He is attempting to maintain Moscow's position internationally by creative diplomacy and arms control while he makes the wrenching and disruptive changes at home.

- His proposals for nuclear arms reductions are motivated both by the desire to shift some resources from defense to the civilian economy and by the realization that international tensions will strengthen the hand of opponents of reform at home.
- Beginning with the replacement of Foreign Minister Gromyko, he has carried out a far-reaching shakeup of the foreign policy apparatus, enhancing his personal control over foreign policy decision making.
- He has increased the foreign policy expertise and responsibilities of the party secretariat, which he heads, and

added longtime Ambassador to the US Dobrynin to that body.

- He used this new apparatus to place new emphasis on the manipulation of public opinion abroad to better serve Soviet interests.

#### IV. HIS BLUEPRINT FOR REFORM

Finally, an integral part of his strategy is his program for economic reform, which is the boldest attempt at a decentralization of economic decisionmaking since Lenin's NEP policy of the early 1920s. Gorbachev justified it by claiming that the economy had reached a "precrisis" stage, necessitating "in depth, truly revolutionary transformations."

He apparently did not have a blueprint for reform from the beginning.

- He started by extending Andropov's and Chernenko's reforms in the industrial sector that reduced and simplified plan indicators and emphasized financing more of an enterprise's expenses out of profits.
- He established a Commission for Improving Management, Planning and the Economic Mechanism in January 1986, which was charged with translating his calls for "radical reform" into a concrete program of legislation and overseeing its implementation.

-- He sanctioned an unprecedented no-holds-barred debate on economic reform that reached a crescendo just before the Central Committee plenum in June 1987 called to ratify the new reform program.

The evolution of his thinking on economic reform was finally revealed at the June Central Committee plenum, which approved guidelines for the "new economic mechanism" to be "almost fully" implemented by the start of the 13th five-year plan in 1991. Continuing conflict over the reform proposals caused a postponement of the plenum, but Gorbachev called a pre-plenum conference with reform-minded participants to put pressure on the opposition.

-- With the adoption of these main provisions, Gorbachev replaced his and his predecessors' piecemeal approach to reform with a comprehensive and integrated program.

-- The "basic provisions" released at the plenum indicate a wide degree of flexibility possible in implementation; the reforms could result in a substantial increase in enterprise autonomy and a partial dismantling of the Stalinist economic model or potentially restrictive clauses could be used to foil this historic attempt at decentralization.

-- Eleven draft decrees detailing changes in major sections of the economy--including the role of central economic bodies and the

pricing, planning, and supply mechanisms--have just been published (but are not yet available in the West) and may shed more light on how far the reforms will be allowed to go.

The major changes contained in the new reform program touch the heart of the planning and management mechanism.

- Obligatory plan targets covering an enterprise's entire range of output have been replaced by a system of "non-binding" control figures and mandatory state orders that will comprise only a portion of enterprise output; this portion will reportedly be the bulk of the total at first but will drop gradually to well under half by the 1990s.
- Prices for the most important products will continue to be set centrally, but the number of prices fixed by the enterprises themselves or contractually with their customers is to be substantially increased; no figures have been released on the dimensions of this increase, however, and even these prices will be set on the same basis as state-set prices and subjected to similar scrutiny by central authorities.
- Only "scarce" goods are to continue being rationed by the state, and other supplies (as much as 60 percent by 1990) are to be distributed through a "wholesale trade" system, but the critical question of how free an enterprise will be to select

its own suppliers remains unclear, and unlike other reform measures (to be implemented by 1991), the transition to wholesale trade is to be completed "within four to five years."

-- Under the new conditions of "self-financing," enterprises are to bear full economic responsibility for their actions, but it is unclear how much discipline will be imposed since the new state enterprise law specifies only that enterprise activities "may" be terminated if an enterprise has a "long record of losses" and only after all measures to correct the situation have failed.

-- In the area of foreign trade, a "stage-by-stage" convertibility of the ruble--the ability to exchange ruble holdings for other currencies--is planned, starting with CEMA countries. The new enterprise law, also ratified at the plenum, reiterates the broader rights of enterprises to keep part of the foreign exchange earned from exports, but the enterprises apparently must seek permission from the ministries to participate directly in foreign economic activity.

These changes in incentives and operating procedures are being accompanied by organizational reforms. By reducing the size and rationalizing the mission of the government bureaucracy, Gorbachev apparently intends to reduce its ability to meddle in the affairs of subordinate enterprises.

- Although the recent reform provisions make no reference to a reduction in the number of ministries, both Gorbachev and Council of Ministers' Chairman Ryzhkov indicated that there are proposals to do so; this process began on 20 July when four machinebuilding ministries were reduced to two. Sectoral sub-branches will also be cut and staff reduced.
- A merger of related ministries and the creation of new coordinating bodies is also being attempted. The agro-industrial reorganization in November 1985 and the new Machinebuilding Bureau, created in October 1985, have not lived up to expectations, however, and the reform provisions call for an "improvement" in their work.
- Gorbachev and Ryzhkov have called for the formation of "state production associations"--amalgams of independent enterprises, production associations, and transport and marketing organizations--as a way of reducing the number of production units Moscow must administer.

Gorbachev's reforms have thus far focused more on the industrial sector than on agriculture.

- This is somewhat surprising since Gorbachev has an agricultural background--he was Brezhnev's agriculture secretary--and soon

after becoming General Secretary he began using agriculture as a testing ground for some of his more innovative and controversial ideas.

- Reforms in the agricultural sector have been the traditional starting points for reforms in other socialist countries, particularly for the most radical reforms in Hungary and China.
- Thus far Soviet reforms in this sector have focused on giving regional officials and farms greater control over the disposal of above-plan production (the March 1986 Decree on Agricultural Management) and expanding the collective contract system and its variant, the family contract.

- The family contract (in which the farm subcontracts some of its tasks to family groups and pays them on this basis) has been vigorously pushed by Gorbachev in recent months, suggesting that he sees this as a way to interject a "proprietary spirit" into collective agriculture.

- Gorbachev recently indicated that an agricultural plenum focusing on a wide range of farm issues, presumably including reforms, would be held "in the course of a year."

Reforms enacted since November 1986 to expand the private sector are intended to satisfy demand for consumer goods and services

neglected by the state sector and to bring some of the "second economy" under state control.

- Such proposals in the past have encountered opposition from conservatives, who are concerned that a greater role for the private sector will reduce the party's control over the economy and create opportunities for individual enrichment incompatible with socialist principles.
- The new legislation sanctions self-employment in a wide range of activities, permits small groups of people to form profit-sharing cooperatives to engage in consumer-related activities, gives legal sanction to shabashniki--self-employed itinerant construction and farm brigades--and cracks down on "speculation" and "unearned income."
- Regulations on the number and kind of employees--participation is limited to housewives, students, pensioners, and state employees working during their free time--are much more restrictive than comparable legislation in Eastern Europe.
- Thus far the development of the private sector is proceeding slowly because of inadequate incentives, a lack of enthusiasm and support at the local level, and a confusing mass of red tape necessary for licensing and operation.

#### V. THREATS TO HIS PROGRAM

The fortunes of Gorbachev's program and his own political position will be determined primarily at home, but external developments impinge on all of the decisions Gorbachev might make. In defining the problems as so major and the changes required as so revolutionary, it will be difficult for Gorbachev to be content with "muddling through" as his predecessors did. There are major dangers threatening the success of his program.

First, reform/modernization could cause serious economic disarray.

- Even if the combination of human factors, redirection of investment, and economic reform eventually succeed in reviving Soviet productivity, a period of economic disruption is likely over the next few years.
- We estimate that this could depress economic growth during the rest of the 1980s to an average annual rate of less than two percent.
- Industrial growth during the first half of this year, in fact, was only 1-1/2 percent, in large part the result of the introduction of Gospriyemka and the extension of self-financing.
- Such a disruption could severely complicate the delicate balancing of competing interests of institutions, classes, and nationalities.

-- Gorbachev realizes, for example, that the populace will judge his policies by the "practical improvements in the working and living conditions of the millions." Slow growth would delay such improvements, thereby weakening the ability of the regime to reward those who worked harder.

Secondly, there might be little pay-off evident from his program to boost technological development.

- Systemic and structural improvements in the economy, if at least partially successful, will stimulate an acceleration in economic growth only in the next decade, and even then, prospects for narrowing the technology gap with the West are slim.
- Pressures to see some pay-off will mount as the next five-year plan (1991-95) drafting period approaches, particularly from those impatient with the slower growth in military spending.
- This might generate a new battle between those who would press for increased imports from the West to compensate for domestic shortfalls and others who argue that such imports stifle domestic S&T and encourage dependence on foreign sources for technology.
- An equally contentious decision might be to scale back some output targets to encourage innovation. The traditional Soviet approach has been to maintain pressure on workers, managers, and bureaucrats; Gorbachev vigorously defended this policy at the June

plenum.

In another scenario, his program could be damaged if little progress resulted from arms control and the West sharply boosted defense spending.

- The strength of military support for industrial modernization coupled with constraints in the growth of defense programs could erode substantially if the external threat assessment becomes darker. Pressures will mount to redirect resources toward defense.
- It would be impossible to substantially raise defense procurements and fulfill the requirements of industrial modernization at the same time. A sharp rise in the rates of growth of military purchases from the machine-building sector probably would bring the scale of modernization down to the levels of the late Brezhnev years.
- A more tense international climate probably would also disrupt Moscow's programs for joint ventures and expanded trade and foreclose the possibility of expanding the use of credits to finance import surpluses.

The Soviet leadership will also be looking carefully for signs of domestic instability and/or major power loss by the party caused by new freedoms extended to Soviet citizens and major revisions in the social contract.

- Party conservatives are already fighting a rear-guard action against glasnost and the relaxation of controls over literature and the theater. Even supporters of greater openness in Soviet society recognize its risks. On the other hand, a crackdown would risk killing the esprit Gorbachev wants to foster and might lead to greater popular cynicism than existed before.
  
- Elections inevitably evoke the specter of factionalism that would undermine the top-down direction of the society and the economy that has prevailed for 60 years. No doubt the leadership will do its best to control the election progress, but success is by no means assured.
  
- The fear of public disorder is central to the Russian character. Reforms inevitably produce centrifugal tendencies intensifying divisions in society and the elite that could threaten the loss of control and order. Major demonstrations that get out of hand--such as last year's riots in Kazakhstan--are a case in point.
  
- Many Soviet citizens already feel their job security threatened and their personal lives constrained by Gorbachev's labor and social policies. A tougher work ethic and stricter discipline are straining relations at the workplace between high performers who stand to gain and low performers who stand to lose.

Setbacks in foreign or domestic policy could cause powerful interest groups to unite against him--the fate that befell Khrushchev, the last party leader who tried to shake up the system.

- Gorbachev's attack on the Moscow party organization nearly led to a rebellion in the ranks, demonstrating the risks of moving forceably.
- Gorbachev is particularly vulnerable on the security issue.
- Some senior members of the leadership appear to view Gorbachev as too optimistic about his ability to control US military programs through arms control and may prefer increasing nearterm military spending to compete.
- Indicative of policy differences within the leadership over this issue was the January Central Committee resolution that called for more resources to str , then defense as opposed to Gorbachev's focus on the need for efficiency and discipline among military personnel.

Finally, his economic reform program faces serious obstacles.

- Many bureaucrats are increasingly concerned that the changes Gorbachev has proposed will undermine their traditional privileges and status and will work hard at frustrating implementation.

- Popular resistance to the reforms might coalesce among those who fear that pay tied closer to performance and the elimination of subsidies on many consumer goods and services will lower their standard of living.
- Ambiguities and contradictions in the reform guidelines approved at the June party plenum indicate that many critical details are yet to be negotiated.
  - The major issue left unresolved is a tightly defined division of responsibilities between central authorities and the enterprise. The ministry appears still to be held ultimately responsible for the production of its branch subordinates and is charged with "monitoring" their activities.
- There is still a basic conflict between taut output goals and the emphasis on quality and innovation in the reforms, although some in the leadership have begun to speak publicly about the need to downplay quantitative targets.
- There is no guarantee that when the reforms are in place, the decisions taken by the enterprises will coincide with national planning objectives; in the past, such a disconnect resulted in a gradual erosion of enterprise authority.

- The complexity of programming such a massive transition to a new and unfamiliar order, particularly when different parts of the system will be implemented in different stages, will present a formidable challenge.

Nevertheless, there are good reasons why Gorbachev's "new economic mechanism" seems to have a better chance than previous reforms to be implemented with some success.

- It is a bolder attempt to change the Stalinist system and imposes shorter deadlines.
- It is a comprehensive package affecting all of the necessary component parts--e.g., supply system, prices, credit and finance.
- Leadership commitment is at an all-time high because of a recognition of the severity of Soviet economic problems, in particular the technology gap with the West.
- Some machinery to monitor implementation is in place; Gorbachev told the Central Committee that the Politburo and Secretariat had erred in the past but were now regularly examining the implementation of decisions.

The next several years will be a time for translating general policies into specific directives and for taking evasive actions to avoid the obstacles listed above. Outside of the agricultural area, Gorbachev is not likely to initiate in this time period additional major reforms.

- Because the whole reform package is not scheduled to be in place before the early 1990s, and there is likely to be some slippage in this schedule, it will take some time to know if the reforms are a success or failure; both Gorbachev and his critics probably will be willing to wait for results before proposing alternatives or major amendments.
- Exceptional events, however, could change this scenario:
  - A serious stagnation in growth that was directly reform-related and that lasted a year or more could cause a rethinking about the wisdom of pursuing a reformist course.
  - As noted before, international tensions and a breakdown of arms controls or serious domestic unrest could lead to a general repudiation of Gorbachev's policies by conservatives who were always uncomfortable with decentralizing reforms.
  - Serious destabilizing unrest in Eastern Europe, resulting

from frustrated expectations for political and economic reforms encouraged by Gorbachev's programs, could strengthen Gorbachev's foes.

All of the obstacles to reform will not be overcome, and the final system in place most probably will be the result of compromise and delay. The new system will not result in market socialism but it could eventually approximate the dual-dependent Hungarian system (greater use of market forces but still subject to many bureaucratic controls), representing some forward movement away from the Stalinist command economy. Even partial implementation probably will bring:

- Some increase in the quality and assortment of industrial goods and a greater reflection of resource scarcity in producer prices.
- More and better consumer goods and services, largely the result of the expansion of the cooperative and private sector.
- A more "rational" distribution of goods and services among the population; demand will play a larger role in consumer pricing, and state subsidies will decline.
- A greater differentiation in pay and perks that rewards good workers and managers and yields previously untapped increments in labor productivity.

These gains, however, are not likely to match Gorbachev's expectations for his economic program. If Gorbachev is still in power in the mid-1990s when it becomes apparent that his economic reform program has not produced dramatic results, this may be the catalyst that allows him to push for more radical alternatives, particularly if the technology gap continues to widen with the West and threatens the ability of the Soviets to keep up militarily. On the other hand, this could be the catalyst that finally allows his critics to unite and depose him.